

Accounting 380K.7 – Spring 2013 (IDs: 02715 02710)**Financial Statement Analysis**

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Office Hours	4M.252. Primary: Tues 11-12 pm . Wed 5-6 pm. Secondary: Tues 5-6 pm. Wed 11-12 pm.
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Course Time/Location	M W: 2:00-3:30 (CBA 4.304); 3:30 to 5:00 (CBA 4.348)
Teaching Assistants	Christopher Yust and Jeanmarie Lord

Our objectives include:

- Increase our understanding of financial filings (including financial statements, managers' commentaries, footnotes and other sources of financial information) in order to:
 - Understand how firms operate and create value
 - Concisely articulate the firm's past—*tell the specific story of the firm*
 - Increase our understanding and ability to use tools to analyze information presented in financial statements
 - Understand the benefits and limitations of financial information provided in financial filings and the motivation for and process of making adjustments to this information
 - Use our understanding of the firm and its financials to make informed predictions about future performance
 - Motivate, understand, construct and implement various inputs in valuation models
- Develop our exposure to making business decisions using financial statement information
- Develop critical thinking skills and practice communicating our decisions using written and oral communication skills

We will review (and learn) accounting concepts as this knowledge is critical to making decisions with financial information. However, the primary objective of the course is *not to improve our understanding of Generally Accepted Accounting Principles (GAAP)*; the goal is to improve our ability to interpret and use financial statements in a variety of settings including a primary focus on credit and equity analyses and supplemental coverage of corporate finance, planning and control.

A few notes:

1. By financial statements, we mean “information provided in financial filings and other publicly available sources,” which involves more than the Balance Sheet, Income Statement and Statement of Cash Flows.
2. This course is not a review of financial accounting. It is expected that you have mastered the material covered during your intro to financial accounting class.
 - a. This class will consistently build off of and *apply* this knowledge

3. This course is not a valuation class. It is a course that helps you use financial information *to better understand the main inputs to valuation models*. This course enables you to move away from an over-reliance or fixation on valuation inputs provided by firms or other analysts and move towards understanding and constructing firm-specific inputs.
4. This course does not cover technical analysis (analyzing fluctuations in stock prices). If you want to master technical analysis, we recommend that you consider a PhD in Physics, Computer Science, Statistics or a related field in addition to your business studies.

Materials

- **Required text:** The textbook for the course is *Financial Reporting, Financial Statement Analysis and Valuation: A Strategic Perspective* by Wahlen, Baginski and Bradshaw, **seventh edition**.
 - The text provides our background reading, so while you need consistent and reliable access to the text and the cases, *you can share the textbook with another student if you are able to work out a plan that ensures sufficient access*.
- Throughout the course we will be examining publicly available material including corporate press releases, corporate filings (10K's, etc.), analyst reports and articles from the business press. When appropriate, these and other supplemental information (or links to these documents) will be provided via Blackboard. You will be responsible for downloading and printing these articles.
- The Blackboard Discussion Board is also essential to our class.

Course Structure

The class format involves coverage of the main areas and tools noted below. In addition, there will be a considerable amount of discussions/cases that focus on specific firms and specific financial issues. These cases will involve a careful analysis of the financials, the opportunity to dig deeper to support (or deny) information that is presented, and the consideration of the benefits and limitations of various tools, metrics and ratios.

During the semester we will learn a framework for business analysis and valuation. The steps in the framework include:

- (1) Business Strategy Analysis: The purpose of business strategy analysis is to assess the profit potential of the firm at a qualitative level. This involves an understanding of the firm's strategy and its industry and considering how these affect and are affected by the firm's financial performance.
- (2) Accounting Analysis: The purpose of accounting analysis is to develop an understanding of whether a firm's accounting captures its true underlying economic condition(s). This involves understanding accounting transactions, identifying accounting flexibility, evaluating the appropriateness of accounting policies and estimates, and at times, altering financial statements to enhance decision making.
- (3) Financial Analysis: The purpose of financial analysis is to assess the firm's historical financial performance in the context of its stated goals and strategies. Tools used for

financial analysis include ratio analysis, cash flow analysis, and common size financial statements.

- (4) Valuation/Prospective Analysis: The purpose of valuation/prospective analysis is to forecast the firm's future financial performance and valuation. To do this we will learn the mechanics and intricacies of forecasting financial statements and we will cover the components and usage of valuation models.
- The course will be taught using a combination of examples, discussion questions, cases and homework problems. We will learn new concepts using various firms' historical and current financial data.
 - A tentative schedule of class meetings is attached to the end of this document. This schedule may be revised.

Quantitative Reasoning

This course carries the Quantitative Reasoning flag. Quantitative Reasoning courses are designed to equip you with skills that are necessary for understanding the types of quantitative arguments you will regularly encounter in your adult and professional life. You should therefore expect a substantial portion of your grade to come from your use of quantitative skills to analyze real-world problems.

Course Requirements and Grading

Your grade in the course will be determined as follows:

Exam 1	20%
Exam 2	35%
Homeworks and Assignments	20%
Course Project	20%
Class Participation	5%
Total	100%

Description of Requirements

Exams

There will be two **exams**. Exam 1 will be worth 20% of your course grade. Exam 2 will be worth 35% of your course grade (and is cumulative). The first exam will be held before Spring break to ensure students are progressing through the course to date. The second exam will be held during finals week and will cover material from all of the class sessions, with a slightly greater focus on sessions following the first exam. Please notify me **immediately** if you have a conflict with either of the exam dates once they are posted. All notifications of exam conflicts must be received at least a full week before the exam is scheduled.

Exams are primarily built around class discussions and homeworks and involve your analysis of actual firms' financial information.

Exam (and homework) Re-grades

You have 72 hours from the time that the exam or homework is handed back in which to bring up any re-grades. If we have incorrectly added the points, we can simply recalculate score (for

the whole exam). If you are seeking a re-grade on one problem, *the entire exam or homework* is regarded (and your total points could go down or up). Re-grades cannot be granted after the 72 hour period has lapsed.

Course Project

Each student will be part of a small group that is responsible for conducting an analysis of a public company. Each team will write a report and make a short “stock pitch” presentation to convince the class what investment they would advise for this particular company (and why). More details about course project will be posted to Blackboard in the Assignments section.

Homework Assignments

The primary objective of homework assignments is to help you review the class material *before* attending class. All homeworks are due before the start of each class. The assignments will be a combination of computational problems, short answers and cases. There are 22 scheduled assignments in total; you are required to submit ALL of them. However, as I know things come up and prevent you from doing everything on time, you are allowed to turn in up to two of the homeworks up to 48 hours late and no reasons need to be provided.

This lenient policy is designed to incorporate all valid and unavoidable reasons for turning in late homeworks (for example, students whose textbooks and computers are stolen and whose hotels' internet completely stops working while they are busy saving a litter of puppies from a nearby fire when they are out of town on an interview, which was a once-in-a-lifetime opportunity and had to occur the night before the homework is due) as well as those reasons which are less valid.

The homeworks may be completed in small groups. In fact, I strongly encourage it. You may choose your own groups and the members may vary from one assignment to the next. These groups should be two to four students. You are also responsible for monitoring the groups that you have chosen; if you have any issues, deal with them whenever possible. All group members are also responsible for each assignment: if all of the names are not clearly listed at the top of the assignment, no group members will get credit; if the assignment is late, no group members will get credit. No exceptions. You are allowed to work alone if you prefer, but the questions and length are made assuming groups of two to four people. In the past, students have effectively used Skype, Facetime, Google Docs, Dropbox and Comments and Track Changes in Microsoft word to collaborate from different locations and good, old-fashioned meetings to collaborate in person.

All assignments should be submitted electronically through Blackboard using a program that is compatible with Microsoft Office. Some homeworks are graded solely based on effort, others are graded on the correct completion of the assignment. Many homeworks offer more than one right answer and students can receive a perfect score without having every single answer correct. Homeworks are not all worth the same amount of points. The possible points for each homework will be clearly noted on Blackboard.

Class participation

Much of class is conducted in a discussion setting. After the first few classes, we will not spend much time going over computations or mechanics, rather we will analyze specific firms and

discuss which metrics are important, the reasons for our approach, and the implications of our choices. The assignments are geared to prepare you to participate in and learn from these discussions. Accordingly, your participation in our discussions is vital. At times, I will only be a facilitator of your discussions. After each class, I will make class participation notes, with particular attention to the quality of comments, not the quantity. You do not need to know all of the answers to participate: insightful questions are also important.

Our class will also make use of the Blackboard Discussion Board. This is the forum for outside-of-class questions related to assignments, our class coverage and any related current events. Your Discussion Board involvement can help enhance your class participation grade.

Additional Notes:

- Class participation provides an opportunity for students to practice important career skills in a low cost environment. Among other skills, these include the ability to express and defend one's ideas. (Remember, we may challenge ideas, but we will not challenge people. Rude classroom behavior is unprofessional and unacceptable.) The cost of not developing these skills will increase as your career progresses (e.g., lost promotions).

Grading Distribution

The following target grade distribution is a general approximation of the possible grades in our class: A (4.0) 25%; A- (3.67) 20%; B+ (3.33) 15%; B (3.0) 35%; B- or below (2.67) 5%. The spirit of this distribution is that it yields a target GPA of 3.42 in each class. A grade of a C- or lower is a failing grade.

McCombs Classroom Professionalism Policy

The University of Texas and the McCombs School of Business are incredible places to learn; let's not take this opportunity for granted. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. The McCombs classroom experience is enhanced when:

- **Everyone must arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students avoid or minimize unscheduled personal breaks.**
- **Students are fully prepared for each class.** Much of the learning at McCombs takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them as well.
- **Students attend the class section to which they are registered.**
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are not allowed (with the exception of the classes in which we directly use them—these classes will be noted on Blackboard).**
- **Phones and wireless devices are turned off and there is absolutely no texting during class!** You may not have your phone out or in your lap as this is distracting to all of us. A student who reads or sends texts during class disrupts our learning and can receive a 0 for

class participation for the semester. If you have a specific personal need to have a cell phone on (for example, waiting to hear back from the Noble Prize Committee or about the birth of your child), you may inform me before class.

Academic Integrity

Don't cheat as (1) it is wrong; (2) the costs far outweigh the benefits: you don't want to get kicked out in a short-sighted attempt to make a B a B+; and (3) there is a very good chance that your cheating will be revealed and we will all be extremely disappointed. Moreover:

Additional Important Notifications

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/>:

- Occupants of buildings on The University of Texas at Austin campus are required to

evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

Important Dates during the Spring Semester:

January 14: Classes begin.

January 17: Last day to add a class.

January 21: No class for MLK Day.

January 17: Last day to drop a class for a possible refund.

March 11-1: Spring Break: No scheduled classes.

April 1: Last day to drop a class with explicit approval of the Dean.

May 3: Last day of class for the Spring Semester.

May 8-14: Final Exams.

Tentative Schedule of Classes (as of 1/4/13)

Class #	Day	Month	Date	Coverage	HW
1	Monday	Jan	14	Intro to FSA	1
2	Wednesday	Jan	16	Financial Accounting Review	2
	Monday	Jan	21	No Class	
3	Wednesday	Jan	23	Intro to Forecasting	3
4	Monday	Jan	28	Forecasting Drivers	4
5	Wednesday	Jan	30	Intro to Valuation	5
6	Monday	Feb	4	Valuation Continued	6
7	Wednesday	Feb	6	Financial Analysis: IS and BS	7
8	Monday	Feb	11	Financial Analysis: IS and BS	8
9	Wednesday	Feb	13	Financial Analysis: Cash Flows	9
10	Monday	Feb	18	Financial Analysis: Cash Flows	10
11	Wednesday	Feb	20	Financial Analysis: Wrap Up	11
12	Monday	Feb	25	Intro to Accounting Analysis (AA)	12
13	Wednesday	Feb	27	AA: Revenue Recognition/Expenses	13
14	Thursday	Feb	28	Exam 1 (Night exam)	
15	Monday	March	4	Assessing Risk and Valuation Models	14
	Wednesday	March	6	No class (Exam 1 makeup)	
	Monday	March	11	Spring Break (FSA focus optional)	
	Wednesday	March	13	Spring Break (FSA focus optional)	
16	Monday	March	18	AA: Operating Assets and Expenses	
17	Wednesday	March	20	AA: Working Capital and Liquidity	15
18	Monday	March	25	AA: Derivatives	16
19	Wednesday	March	27	AA: Income Taxes	17
20	Monday	April	1	AA: Leases/Off Balance Sheet Analysis	18
21	Wednesday	April	3	AA: Fixed Assets	19
22	Monday	April	8	AA: Financial Liabilities	20
23	Wednesday	April	10	AA: Equity	21
24	Monday	April	15	AA: Wrap Up	
25	Wednesday	April	17	Valuation: Market Multiples	22
26	Monday	April	22	FA, AA and Valuation	
27	Wednesday	April	24	Final Project	
28	Monday	April	29	Final Project	
29	Wednesday	May	1	Final Project	
		May		Final Exam	

Homework and class details are provided on Blackboard, see the ASSIGNMENTS tab. Homework is due at the start of class the day it is assigned unless otherwise noted on Blackboard.